

The Effect of Risk-Based Capital (Rbc), Net Premium Growth, and Claim Expenses (Claim Ratio) on the Financial Performance of the Life Insurance Companies in Sri Lanka

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Abstract

Introduction & Objectives: The insurance sector stands as a crucial component of Sri Lanka's non-banking financial sector, playing a significant role in bolstering the national economy. The financial stability and performance of Life Insurance Companies are of utmost importance, considering their primary function of risk management and providing protection against financial losses. Therefore, it is essential for these companies to identify the factors influencing their financial performance; and maintain a sound financial condition at any given time to meet their obligations to policyholders. This study seeks to examine the impact of Risk-Based Capital, Net Premium growth, and claim expenses on the financial performance of life insurance companies in Sri Lanka.

Methodology: Data for analysis were sourced from quarterly publications of the Insurance Regulatory Commission of Sri Lanka (IRCSL) covering the period from the 1st quarter of 2016 to the 2nd quarter of 2022. The study focuses on the entire population of 16 IRCSL-approved life insurance companies in Sri Lanka, ensuring an identical sample and population. The analytical approach involves employing time series data regression techniques using EViews 12. The research findings are applicable not only to the Sri Lankan insurance sector but also offer insights for insurance companies operating in the wider Asian region.

Findings & Conclusions: The study reveals that Risk-Based Capital (RBC), Net Premium growth, and Claim expenses significantly impact the financial performance of life insurance companies in Sri Lanka. Notably, Risk-Based Capital and Claim expenses negatively affect financial performance, as measured by Return on Assets (ROA). Conversely, Net Premium growth has a positive influence on the financial performance of life insurance companies, as proxied by ROA. These empirical results provide practical guidance for insurance companies looking to optimize their strategies in the Sri Lankan and broader Asian insurance markets. Finally, this research can be used as a basis for making a policy related decisions for the regulators, investors and customers on financial performance, Risk based Capital, net premium growth and claim expenses.

Keywords: Financial Performance, Risk-Based Capital, Capital Adequacy, Net Premium Growth, Claim Ratio